

Investments and Pensions Oversight Subcommittee on Public Safety Pension Plans

September 7, 2012

Gerald Chavez, Board Chair, PERA

Wayne Propst, Executive Director, PERA



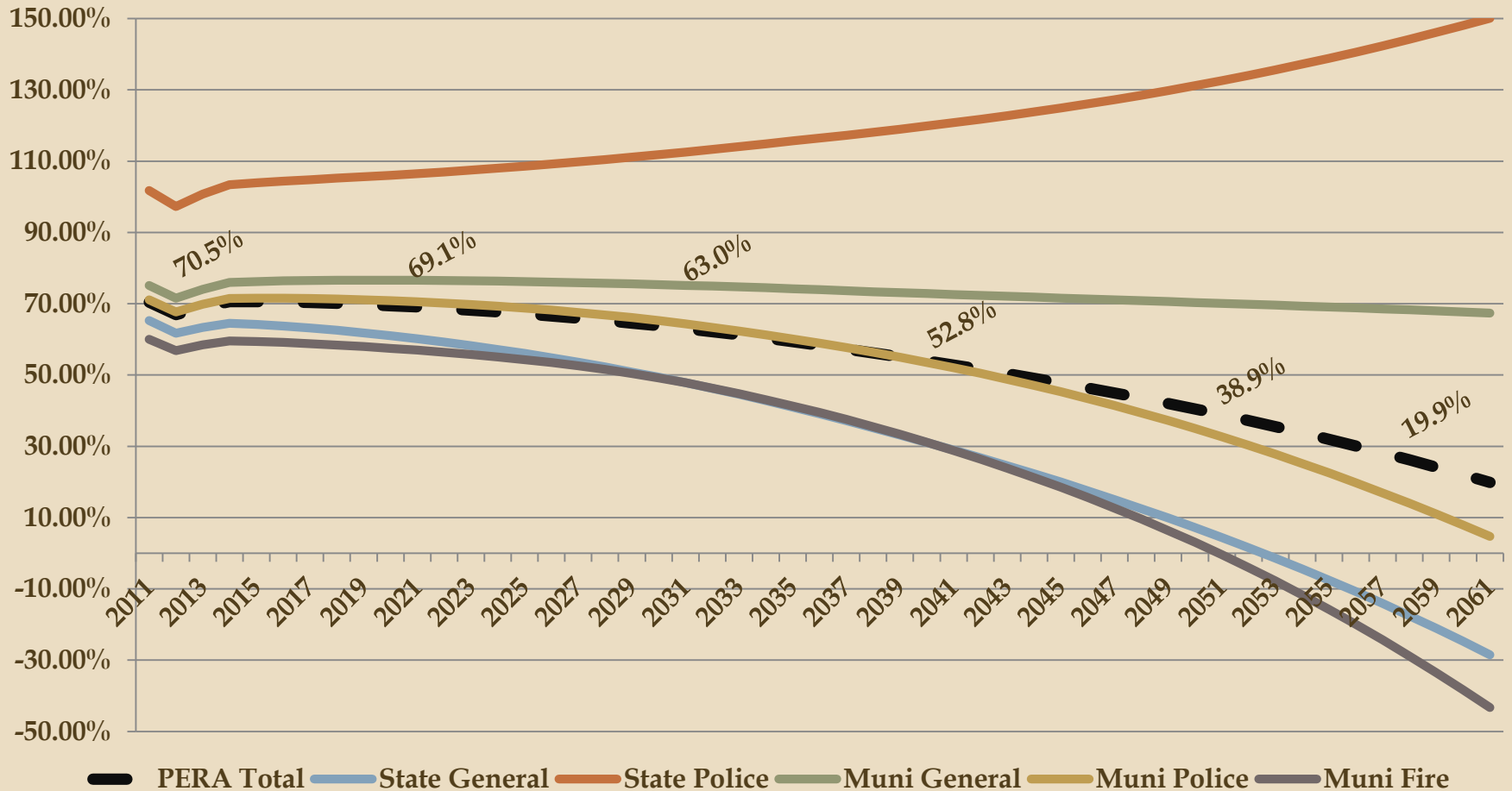
Funded Status by Plan

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Plan	Funded Ratio
PERA Total	70.5%
State General	65.3%
State Police/Corrections	101.8%
Municipal General	75.1%
Municipal Police	71.1%
Municipal Fire	60.0%
Judicial	56.0%
Magistrate	59.7%
Legislative	89.2%
Volunteer Fire	173.3%

Funded Ratio of PERA and Each Division

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A Proposal for Comprehensive Pension Reform

A Shared Responsibility

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- **Current Public Safety Retirees:**
 - * Lower annual compounding COLA rate from 3% to 2%.
- **Current Active Public Safety Members,
Hired Prior to July 1, 2010:**
 - * Lower annual compounding COLA from 3% to 2%.
 - * COLA eligibility begins seven calendar years after retirement as opposed to current eligibility after two years.
 - * No change in COLA one-year eligibility for employees who retire age 65 or older or retire due to a disability.
 - * 90% Pension Benefit Maximum.

Comprehensive Pension Reform

A Shared Responsibility

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- **Non-Hazardous Duty Tier, Hired After 6/30/10:**
 - * 0.5% Reduction in Annual Pension Factor
 - * Retirement Eligibility:
Age and Service Rule of 85, or Age 65 with 10 Years of Service
 - * 5-year Final Average Salary
 - * 8-year Vesting Period
 - * 90% Pension Maximum
 - * 2% Compounding COLA
- **Hazardous Duty Tier, Hired After 6/30/10:**
 - * 0.5% Reduction in Annual Pension Factor
 - * Retirement Eligibility:
Age and Service Rule of 75, or Age 60 with 10 Years of Service
 - * 5-year Final Average Salary
 - * 6-year Vesting Period
 - * 90% Pension Maximum
 - * 2% Compounding COLA

Practical Impact of Rule of 75 on Hazardous Duty

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Age Started Working	# Years Worked	Age After Years Worked	Years Worked Plus + Age
20	25	45	70
	26	46	72
	27	47	74
	<u>27.5</u>	<u>47.5</u>	<u>75</u>
21	25	46	71
	26	47	73
	<u>27</u>	<u>48</u>	<u>75</u>
22	25	47	72
	26	48	74
	<u>26.5</u>	<u>48.5</u>	<u>75</u>
23	25	48	73
	<u>26</u>	<u>49</u>	<u>75</u>
24	25	49	74
	<u>25.5</u>	<u>49.5</u>	<u>75</u>
25	<u>25</u>	<u>50</u>	<u>75</u>

Practical Impact of Rule of 85 on Non Hazardous Duty

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Age Started Working	# Years Worked	Age After Years Worked	Years Worked Plus + Age
20	25	45	70
	26	46	72
	27	47	74
	28	48	76
	29	49	78
	30	50	80
	31	51	82
	32	52	84
	<u>32.5</u>	<u>52.5</u>	<u>85</u>
21	25	46	71
	26	47	73
	27	48	75
	28	49	77
	29	50	79
	30	51	81
	31	52	83
	<u>32</u>	<u>53</u>	<u>85</u>

Age Started Working	# Years Worked	Age After Years Worked	Years Worked Plus + Age
22	25	47	72
	26	48	74
	27	49	76
	28	50	78
	29	51	80
	30	52	82
	31	53	84
	<u>31.5</u>	<u>53.5</u>	<u>85</u>
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Age Started Working	# Years Worked	Age After Years Worked	Years Worked Plus + Age
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	<u>30</u>	<u>55</u>	<u>85</u>

A National Trend

- * California, the nation's largest public pension plan, recently increased the minimum retirement age for public safety members to 57; significantly higher than the age proposed in the PERA reform package.
- * CalPERS, in a study of mortality rates from 1997 to 2007 found that, "life expectancy of safety members is slightly higher than the life expectancy of miscellaneous members."
- * A recent NCSL study showed that 37% of Public Safety Plans have a minimum age of 50 requirement, 11% have a 51-54 minimum age requirement and 23% have a minimum age of 55 requirement.
- * PERA is conducting a comprehensive review to determine if there is a difference in life expectancy for public safety members. We expect the study to be completed in September.
- * The PERA Board believes that a lower retirement eligibility for public safety is warranted, but also believes that a Rule of 75 for *NEW HIRES only* is a reasonable requirement.

A Proposal For Comprehensive Pension Reform

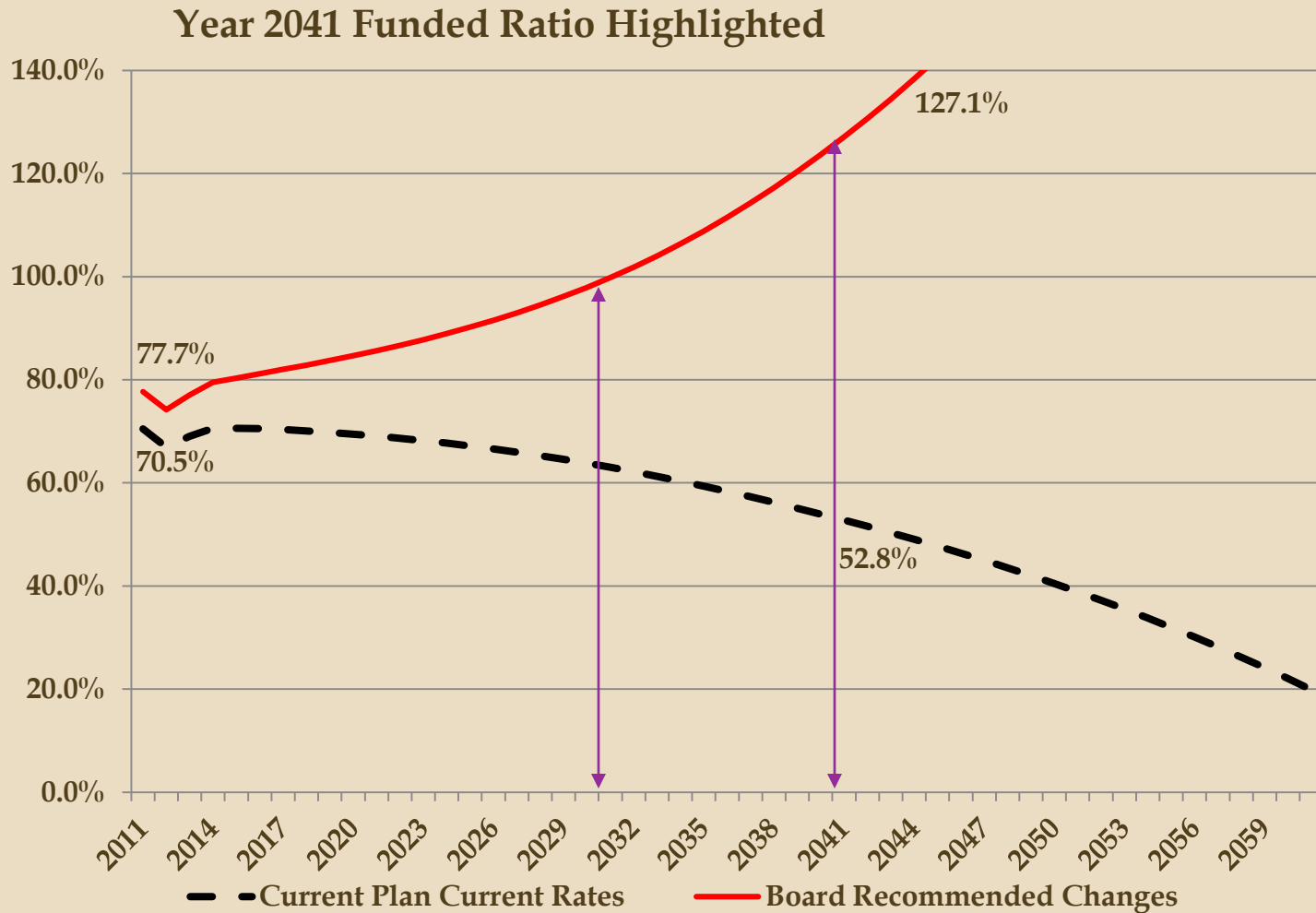
A Shared Responsibility

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- **Employer/Employee Contributions Effective 7/1/2013:**
 - * Increase employee contribution rate by 1.50%.
 - * Beginning 7/1/2014 and for the following two fiscal years, increase all statutory employer contribution rates by 0.50% each fiscal year (total of 1.50%).
 - * The proposed increase would be the first since 1997.
 - * The proposed increase would provide a hedge against lower than expected returns on investments.

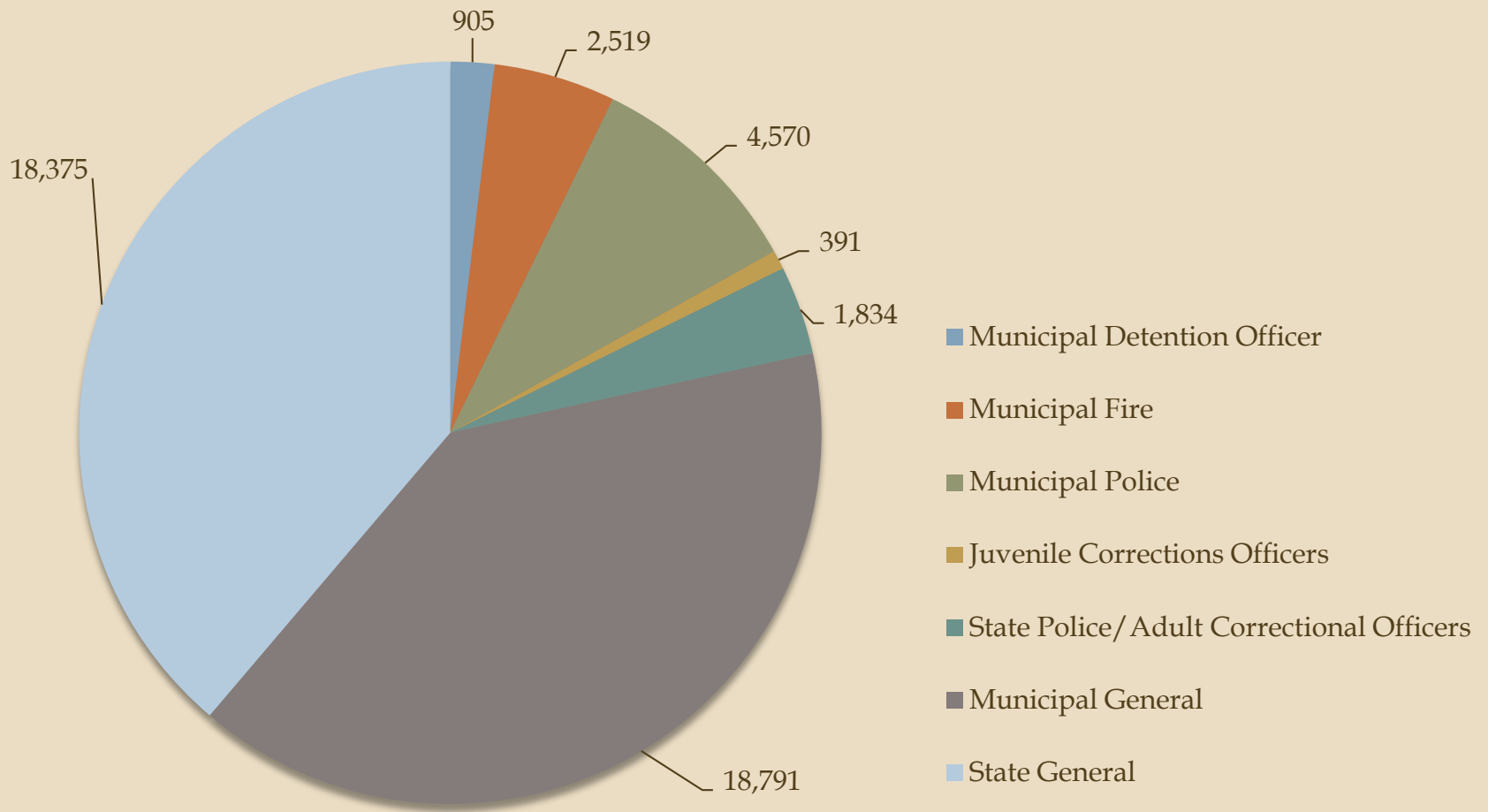
The Results

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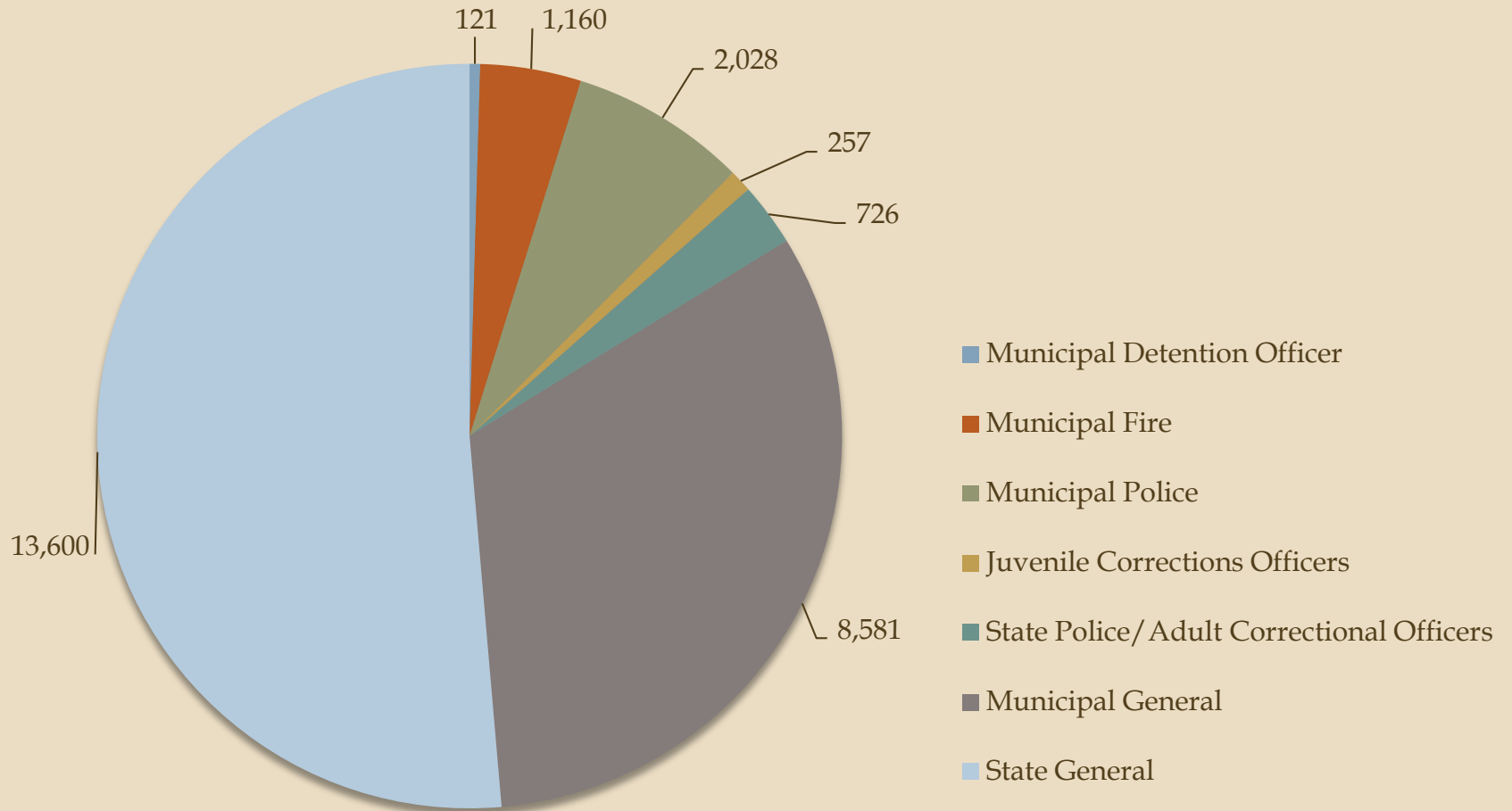
Current Membership

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Current Retirees

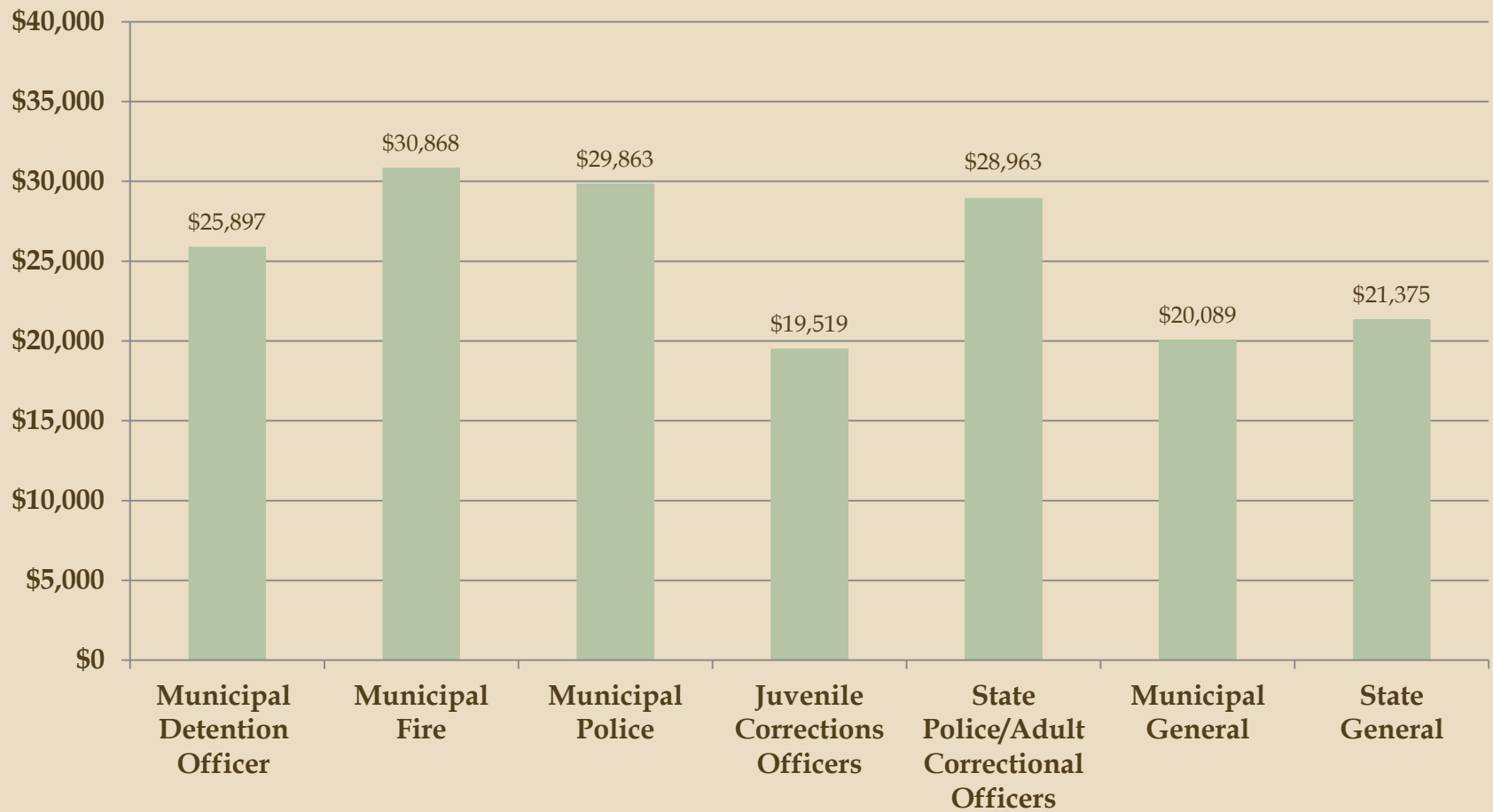
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Average Annual Pension for Last Ten Years

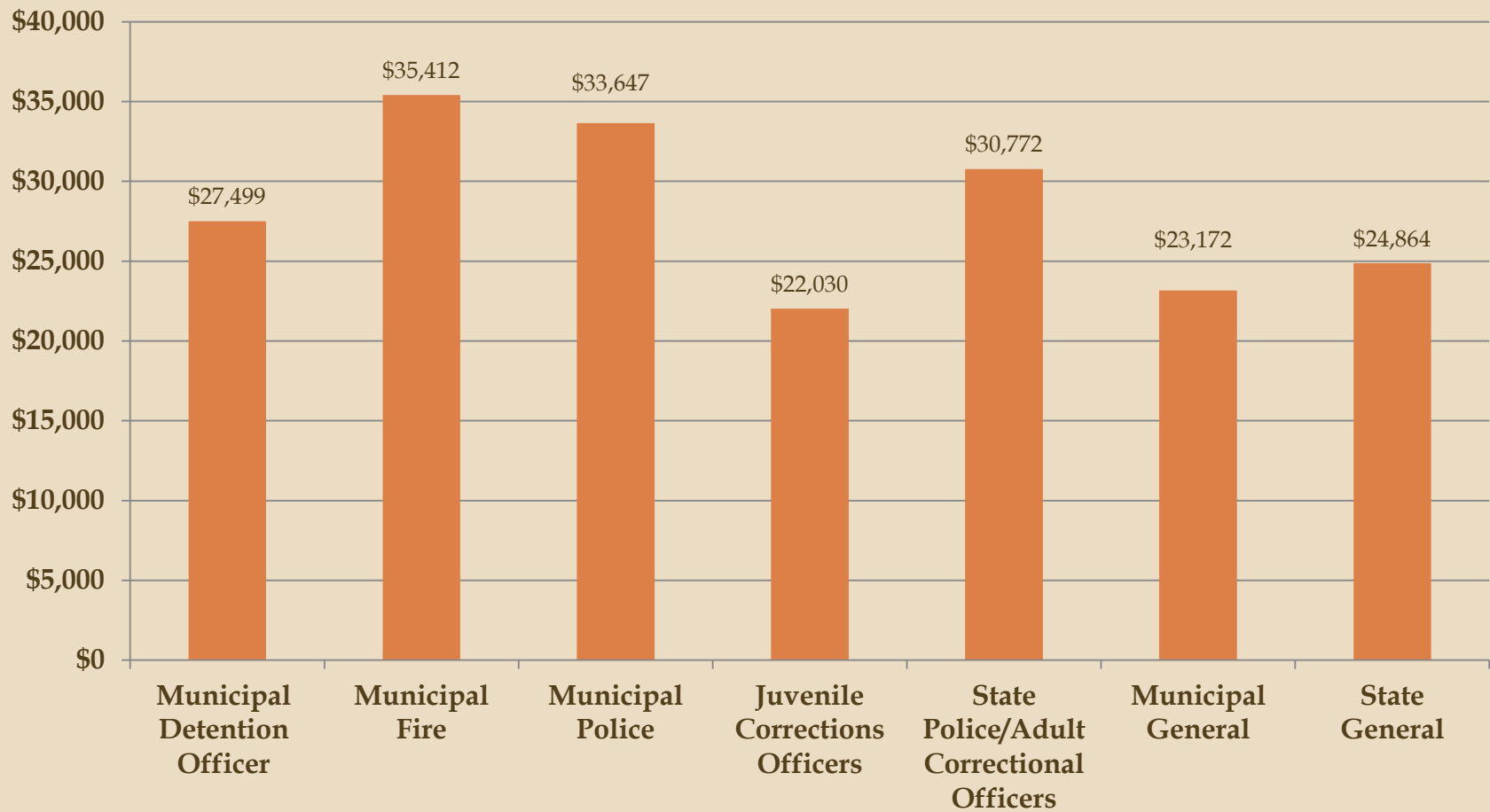
(08/2002 - 08/2012)

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Average Annual Pension for FY2012

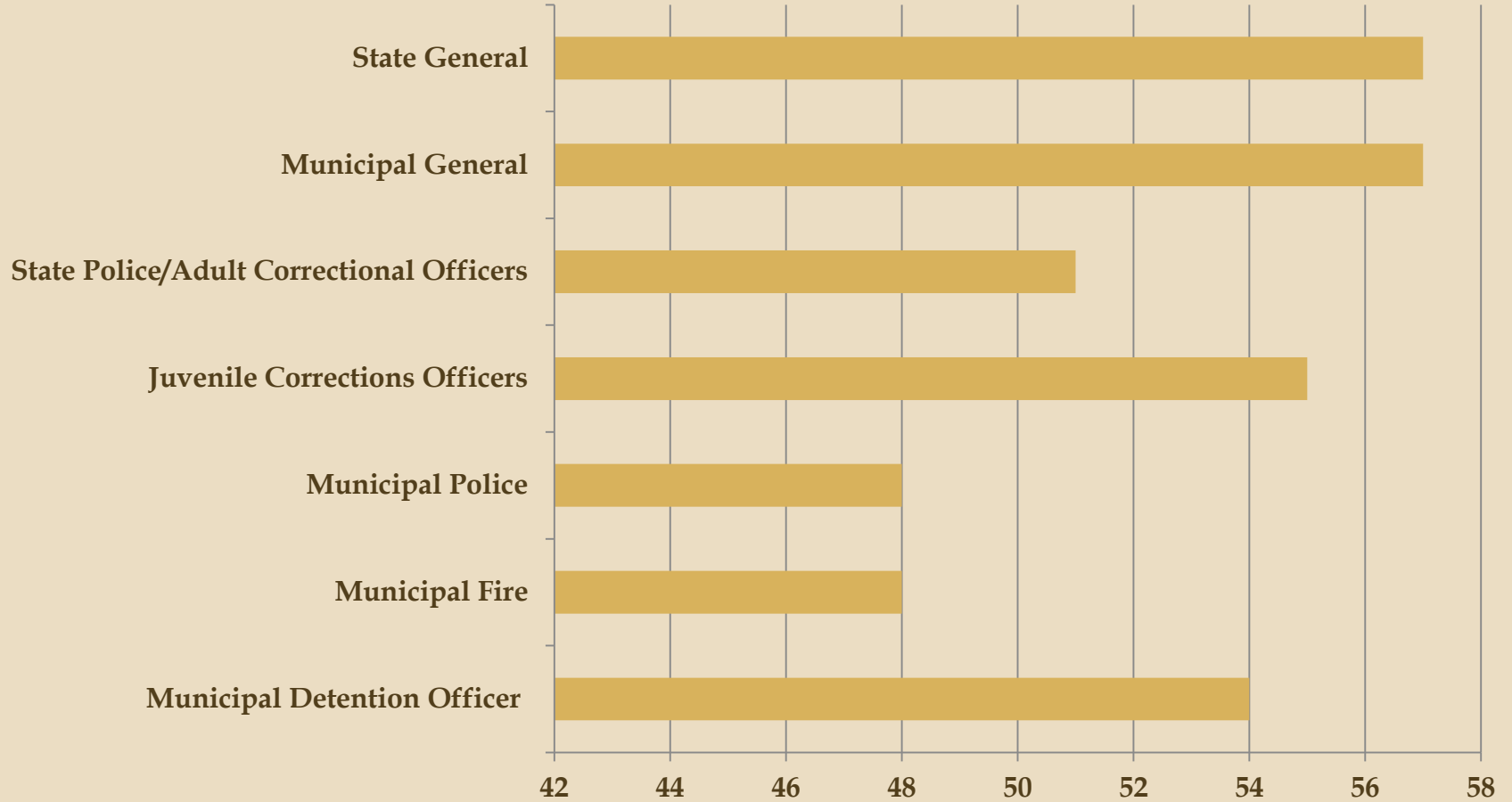
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Average Age at Retirement

(Current Living Retirees Only, Includes Disability)

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Conclusion

- * The Board recognizes that comprehensive pension reform is needed to secure a retirement benefit for current and future public safety retirees.
- * The Board's reform proposal establishes a path to eliminate the unfunded liability and reach 100% funded level in approximately 20 years.
- * HJM 19 (passed during the 2012 session), requires the PERA Board to propose changes that affect all membership groups.
- * The longer we wait to make these changes, the more difficult the challenge will become.
- * Through approval and implementation of the changes proposed by the Board, the PERA benefit will remain a reliable source of retirement security for generations of public safety retirees.

Employee/Employer Contributions By Plan as of: July 1, 2012

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Employer	Employee Contribution %	Employer Contribution %	Total Contribution %
State General Member Plan 3	8.92	15.09	24.01
State Hazardous Duty Plan 2	6.28	24.22	30.5
State Police / Adult Corr.	9.1	23.6	32.7
Municipal General Plan 1	7.0	7.0	14.0
Municipal General Plan 2	9.15	9.15	18.3
Municipal General Plan 3	13.15	9.15	22.3
Municipal General Plan 4	15.65	11.65	27.3
Municipal Detention Officers	16.65	16.65	33.3
Municipal Police Plan 1	7.0	10.0	17.0
Municipal Police Plan 2	7.0	15.0	22.0
Municipal Police Plan 3	7.0	18.5	25.5
Municipal Police Plan 4	12.35	18.5	30.85
Municipal Police Plan 5	16.3	18.5	34.8
Municipal Fire Plan 1	8.0	11.0	19.0
Municipal Fire Plan 2	8.0	17.5	25.5
Municipal Fire Plan 3	8.0	21.25	29.25
Municipal Fire Plan 4	12.8	21.25	34.05
Municipal Fire Plan 5	16.2	21.25	37.45
Magistrate Retirement (excluding docket fees)	9.0	9.5	18.5
Judicial Retirement (excluding docket fees)	9.0	10.5	19.5